

SUBCOMMITTEE NO. 4

Agenda

Senator Mike Machado, Chair
Senator Tom Harman
Senator Christine Kehoe



Monday, April 21, 2008
10:00 a.m.
Room 3191

Consultant: Bryan Ehlers

“B” Agenda

Item Number and Title

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Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

Items Proposed for Vote-only

2310	Office of Real Estate Appraisers
Control Section 1.00	Budget Act Citation
Control Section 1.50	Intent and Format
Control Section 4.30	Lease-Revenue Payment Adjustments
Control Section 4.80	State Public Works Board Interim Financing
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Control Section 25.50	SCO Apportionment Payment System Assessments
Control Section 28.00	Program Change Notification
Control Section 28.50	Agency Reimbursement Payments
Control Section 34.00	Constitutional Severability
Control Section 37.00	Urgency Clause

VOTE on Vote-Only Items:_____

Items Proposed for Discussion

1700 Department of Fair Employment and Housing

The mission of the Department of Fair Employment and Housing (DFEH) is to protect people from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence.

The Governor's Budget begins by funding 240.2 positions (including no new positions) and budget expenditures of \$24.5 million (including \$18.7 million General Fund) for the DFEH, but then includes a 10-percent, across-the-board General Fund (GF) reduction (Budget-Balancing Reduction–BBR) of approximately \$2.0 million (see the Discussion Item below).

VOTE-ONLY ITEM:

BCP-1: Increased Facility Rental Costs. The DFEH requests \$376,000 GF to cover the increased rent for its Southern California district offices.

Staff Comment: The DFEH currently has four separate district offices located in one building in downtown Los Angeles; however, the lease on this space expired in April 2007. The Legislature approved one-time moving costs of \$400,000 for FY 2007-08 to enable the DFEH to decentralize those offices in order to better meet the needs (including accessibility) of the citizenry throughout the current 24,000-square mile service area. Staff notes that the department will pay significantly less to locate two of the district offices outside of downtown Los Angeles (in South Bay and Pomona), although rental rates throughout the region have increased significantly since the current lease was executed in 1996.

STAFF RECOMMENDATION ON VOTE-ONLY ITEM: APPROVE AS BUDGETED.

VOTE on Vote-Only Item:

DISCUSSION ITEM:

BBR: Administration of Civil Rights Law—Delay Processing of Employment and Housing Complaints. The Governor proposes a reduction of \$2.0 million GF and 18.0 positions to this program, which is responsible for protecting the people of California from unlawful discrimination in employment, housing and public accommodations, and from the perpetration of acts of hate violence.

Staff Comment: The DFEH has one year from the date of filing to investigate cases, and if this timeline is not met the case “expires” and claimants lose their right to an administrative remedy and are forced into the court system. The department currently receives approximately 16,000 to 17,000 cases per year, and the elimination of 18.0 positions (8.0 investigative consultants out of a current total of 107.0, and 10.0

administrative and managerial staff) is expected to result in a backlog of discrimination cases and the inability to investigate over 740 cases within statutory timeframes. The DFEH indicates that the backlog would occur primarily as a result of the loss of 10.0 “frontline” positions directly related to casework (including the 8.0 investigate consultants and 2.0 administrative/managerial staff).

Under more extensive budget reductions in the early 2000's, the loss of DFEH investigative staff led to 94 expired cases in 2002-03 and 189 expired cases in 2003-04. More recently, the DFEH experienced 197 expired cases in FY 2006-07 and anticipates 194 expired cases in the current fiscal year despite the approval of 30.0 positions and \$3.4 million GF over the past two years to improve enforcement. Staff notes that, on average, the cost of the entire DFEH administrative process for one case is roughly equivalent to one day in court. Thus, each case that the DFEH is able to effectively settle represents a potential GF savings (cost avoidance) because that case might otherwise have gone to court.

In addition to the GF reduction, the DFEH indicates this proposal would result in the loss of between \$100,000 and \$500,000 in federal funds. This estimate is based on existing workshare agreements with the federal Housing and Urban Development (HUD), and U.S. Equal Employment Opportunity Commission (EEOC). Cases are often dual filed with DFEH and HUD or EEOC. For those cases, the DFEH is reimbursed \$540 for each employment case and \$2,400 for each housing case that is investigated within the federal timeframe.

According to the DFEH, the above estimates of expired cases and reduced federal funds do not assume any increase in claims that might result from the current turmoil in the housing and job markets. Staff notes that even without assuming any increase in claims, the subcommittee will need to consider: (1) whether the adverse affect on the protection of civil rights is worth the proposed savings, particularly in tough economic times; and (2) whether the state would actually realize any GF savings in the long-run since the reduction could result in higher costs to the GF-supported courts system. The subcommittee may wish to consider an intermediate approach that would include eliminating 8.0 of the “non-frontline” positions contained in the Governor’s proposal, while restoring the staff directly related to case processing.

Staff Recommendation: APPROVE the reduction of 8.0 positions and \$1.0 million GF, and RESTORE 10.0 positions and \$944,000 GF.

VOTE:

1705 Fair Employment and Housing Commission

The Fair Employment and Housing Commission (FEHC) is a quasi-judicial body responsible for the promotion and enforcement of the state's civil rights laws concerning discrimination in employment, housing, public accommodations, family, medical and pregnancy disability leave, hate violence and threats of violence. The seven members of the Commission are appointed by the Governor and confirmed by the Senate.

The Governor's Budget begins by funding 7.0 positions (including no new positions) and budget expenditures of \$1.3 million (including \$1.2 million GF) for the FEHC, but then includes a 10-percent, across-the-board GF reduction (BBR) of \$117,000 (see the Discussion Item below).

DISCUSSION ITEM:

BBR: Case Adjudication—Eliminate Hearing Officer. The Governor proposes a reduction of \$117,000 GF to this program, which adjudicates cases brought before it by the DFEH, promulgates regulations that interpret the Fair Employment and Housing Act, sponsors and analyzes legislation on civil rights issues, provides technical assistance to the Governor and the Legislature, and provides education and outreach to encourage compliance with fair employment and housing laws.

Staff Comment: Of the roughly 16,000 to 17,000 cases received by the DFEH annually, approximately 100 "accusations" are referred to the FEHC. According to the FEHC, the proposed elimination of 1.0 Hearing Officer (out of a current total of 3.0) would compromise its administrative hearing program, which includes mediation and settlement conferences that frequently provide a less costly alternative to an adversarial hearing. Staff notes that when these alternative methods are not successful, the Hearing Officer cannot preside over the actual hearing because they have been privy to information that may or may not be accepted into the hearing. This means that with only 2.0 full-time Hearing Officers, the FEHC would have no flexibility as to who can hear the cases.

The FEHC indicates that there is currently no case backlog.

Staff Recommendation: APPROVE the reduction.

VOTE:

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The Department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor's Budget begins by funding 659.2 positions (including 54.0 new positions) and budget expenditures of \$1.1 billion (including \$16.0 million GF) for the department, but then includes a 10-percent, across-the-board GF reductions (BBRs) totaling approximately \$1.3 million. The individual BBRs are as follows:

Program	General Fund*	Personnel Years (PYs)
State Housing Law	-\$64	-0.3
Employee Housing	-\$85	-0.6
Community Development Block Grant	-\$52	-0.8
Emergency Housing Assistance Program	-\$401	--
Office of Migrant Services (Local Assistance)	-\$343	--
Enterprise Zones	-\$59	-0.5
Housing Element, Issues, and Reporting	-\$163	-0.9
Administration and Program Support	-\$85	--
TOTALS	-\$1,252	-3.1

(*dollars in thousands)

As illustrated in the table below, the net effect of the Governor's proposals would be a 19.0 percent decrease in total funds from adjusted Fiscal Year 2007-08 totals, primarily as a result of reduced bond award amounts, but including approximately \$1.3 million less in GF.

	Total Funds*	General Fund*
Adjusted 2007-08 Budget	\$1,303,515	(\$15,654)
2008-09 Base Budget	\$1,057,032	(\$15,951)
Proposed Budget-Balancing Reductions	-\$1,252	(-\$1,252)
GOVERNOR'S REVISED 2008-09 TOTALS	\$1,055,780	(\$14,699)
Change—Year Over Year	-19.0%	-7.9%

(*dollars in thousands)

The majority of the HCD's expenditures are supported by general obligation bond revenue. The budget includes approximately \$37.0 million in funding from the Emergency Shelter Trust Fund Act of 2002 (Prop 46) – down by approximately \$49.0 million from 2006-07 due to the exhaustion of the bond funds. The budget also includes approximately \$771.0 million (excluding administrative costs) from the Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C). Portions of Prop 1C funds are continuously appropriated, and the HCD is using this existing authority to expend \$973.0 million in Prop 1C funds in FY 2007-08.

The second largest revenue source is federal funds, estimated at \$174.5 million in 2008-09, which is about the same as 2007-08. Remaining expenditures of about \$77 million are covered by the GF (\$14.7 million), fees, and other miscellaneous revenues.

VOTE-ONLY ITEMS:

1. BBR: Employee Housing. The Governor proposes a reduction of \$85,000 GF and 0.6 positions to this program, which is responsible for adoption and enforcement of statewide regulations for construction, maintenance, use, and occupancy of privately owned and operated employee housing facilities that provide housing for five or more employees.

Staff Comment: According to the HCD, this reduction would result in less frequent inspections, but would not significantly threaten life or health.

2. BBR: Community Development Block Grant (CDBG). The Governor proposes a reduction of \$52,000 GF and 0.8 positions to this program, which provides CDBG program benefits to non-entitlement cities and counties (counties with fewer than 200,000 residents in unincorporated areas and cities with fewer than 50,000 residents that are not participants in the United States Department of Housing and Urban Development CDBG entitlement program).

Staff Comment: The CDBG Program is designed to create or retain jobs for low-income workers in rural areas by providing grants of up to \$2.5 million for eligible cities and counties to lend to identified businesses, or use for infrastructure improvements necessary to accommodate the creation, expansion, or retention of identified businesses. According to the HCD, this reduction would result in a loss of \$52,000 in matching federal funds (for a total program reduction of \$104,000), and would reduce the department's ability to meet compliance workload demands.

3. BBR: Enterprise Zone Program. The Governor proposes a reduction of \$59,000 GF and 0.5 positions to this program, which offers benefits (including tax credits) to employers that locate or expand within economic development areas.

Staff Comment: According to the HCD, this proposal would result in a reduction to marketing and outreach efforts to inform employers about the program. Staff notes that the Legislature approved a one-time reduction of \$50,000 GF to this program in the special session.

4. BBR: Administration and Program Support. The Governor proposes a reduction of \$85,000 GF to this program, which provides fiscal, human resources, and other support services for each of the other HCD programs.

Staff Comment: According to the HCD this reduction would be spread across the various administrative functions and would diminish the quality of the support to the department's core programs, thus, indirectly reducing the level of services the HCD provides to its stakeholders.

5. BCP-7: HOME Investment Partnerships Program (HOME) Workload. The HCD requests 4.0 positions and \$448,000 (federal funds) for the long-term monitoring of projects and the servicing of loans due to the increase in the HOME housing portfolio.

Staff Comment: The HCD indicates that the HOME Program is currently noncompliant with federal regulations that require long-term monitoring of HOME projects through the full 15-year period of affordability for first-time homebuyers. According to the HCD, by enabling proper monitoring of projects and servicing of loans, the requested positions would not only allow the state to comply with federal requirements, but would ensure that rents are kept as low as possible; apartments are maintained in decent, safe, and sanitary conditions; and that tenant incomes are verified for eligibility purposes.

6. BCP-9: Occupational Licensing Services—Position Conversion. The HCD proposes to convert a temporary help position to a permanent, full-time budgeted position in the Occupational Licensing (OL) Program's Field Investigations Unit to aid in the timely investigations of consumer complaints and help reduce the current two-year backlog. The HCD requests no additional funding authority and will pay for the position out of existing resources (\$104,000 special fund).

Staff Comments: The OL Program licenses and regulates manufacturers, dealers, distributors, and salespersons of manufactured homes, multi-unit manufactured homes and commercial modular units, and is authorized to investigate and prosecute unfair competition and statutory violations in the manufactured home industry. Thus, the OL Program protects consumers against unlicensed sales, fraud, misrepresentation, illegal, unfair, or fraudulent sales practices, and noncompliance with statutory warranty requirements.

Due to the high priority of the workload identified, the HCD has already administratively established the requested position in the current fiscal year using funds that would otherwise have been expended on equipment, training, travel, or other program costs deemed to be lower priorities. Staff notes that the OL Program is supported by fees for various OL Program services. Additionally, staff notes that the HCD workload analysis presents a justification for staff beyond the 1.0 position requested, but funding is currently insufficient to support all of these positions.

7. BCP-10: Extension of Liquidation Period for the Building Equity and Growth in Neighborhoods Program (BEGIN—Proposition 46). The HCD requests authority to extend the term of contract liquidation for Proposition 46 BEGIN Program prior awards.

This would allow project sponsors time, as provided for in the executed contract, to submit invoices for payment/reimbursement.

Staff Comments: Current budget language permits only two years for liquidation, while the HCD has found that many projects require approximately four years. According to the HCD, approximately \$7.3 million in BEGIN funds (awarded to 17 projects in support of 434 units) appropriated in the Budget Act of 2005 are expected to be unspent at the end of the current fiscal year. In the absence of the requested change, these projects (and projects like them in the future) would lose these funds after June 30, 2008. Staff notes that this request is consistent with actions taken by the Legislature last year (to extend the liquidation period) with regard to certain Local Assistance items.

8. BCP-17: Multifamily Housing Program (MHP) Senior Set Aside—AB 927 Implementation. The HCD requests 1.0 two-year limited-term position and \$111,000 (special fund) to implement a new senior-restricted housing component of the MHP, as authorized by Chapter 618, Statutes of 2007 (AB 927).

Staff Comments: AB 927 required that the percentage of MHP funding that goes to senior citizens must be equal to the senior citizen population in the target income group for the MHP program (lower income households) as reported by the federal Department of Housing and Urban Development. Thus, this request would help ensure that low income senior citizens are able to obtain affordable housing.

STAFF RECOMMENDATION ON VOTE-ONLY ITEMS: APPROVE AS BUDGETED.

VOTE on Vote-Only Items 1 through 8:

DISCUSSION ITEMS:

1. BBR: State Housing Law. The Governor proposes a reduction of \$64,000 GF and 0.3 positions to this program, which is responsible for promulgation of revisions to the state's building codes for residential housing and currently has 3.5 positions.

Staff Comment: The purpose of the State Housing Law Program is to develop and implement new and existing residential building and housing codes in California. The California Building Code is updated every three years and requires the HCD to review national "model" building codes, determine necessary amendments for California, and propose them to the California Building Standards Commission (BSC).

The HCD indicates this proposal would reduce the department's ability to monitor and then amend national building codes into California building codes, which could result in California builders being required to follow codes that are inconsistent with national standards. This could result in more costly housing construction. Staff notes that the Legislature approved a one-time reduction of \$50,000 GF to this program in the special session.

Staff additionally notes that Item 2 (below) would add positions to this division for the purpose of developing building standards regarding water conservation and reuse as directed by recently adopted legislation.

Staff Recommendation: APPROVE the reduction.

2. BCP-15: State Housing Law—AB 1406 & AB 1560 Implementation (Water Efficiency and Conservation). The HCD requests 1.0 two-year limited-term position and \$117,000 GF to develop codes and standards for use of recycled water in condominiums for toilet and urinal flushing (Chapter 537, Statutes of 2007—AB 1406) and water efficiency and conservation in new residential and non-residential buildings (Chapter 532, Statutes of 2007—AB 1560).

Staff Comment: Staff notes that the legislative analyses for AB 1405 and AB 1560 noted zero or negligible costs for the HCD. Additionally, the subcommittee is generally denying any augmentation to implement new or recent legislation unless the funding would protect life and safety or produce offsetting revenues or savings. While AB 1406 and AB 1560 clearly reflect the priorities of the Legislature and the Governor to move toward more sustainable/"green" building practices, and while they may result in long-term benefits or savings to the state, staff notes that this request does not appear to meet the subcommittee's criteria and, therefore, this proposal would be a candidate for denial without prejudice. However, should the subcommittee wish to give fuller consideration to this proposal, it may wish to consider the information below.

The HCD states that the existing 3.5 positions in the State Housing Law Program are not capable of meeting the existing demand to update the California Building Code, implement the two pieces of legislation cited, as well as work on current Green Building efforts of the Building Standards Commission (BSC).

The Legislature has made its desire to make "green building" the standard practice in California clear. Along with the two pieces of legislation mentioned here, the legislature also passed three green building bills in 2007 (relative to residential, commercial, and state buildings) that were vetoed by the Governor. Part of that veto message cited the existing efforts underway by the BSC, on which the HCD is collaborating.

As such, the subcommittee may wish to request further information from the department to ensure that the HCD, the BSC, and the other partners are moving in a direction consistent with the desires of the Legislature. The current efforts at the BSC are largely resulting in voluntary measures, and the Committee may wish to review the appropriateness of funding efforts to develop voluntary building codes that already exist in the private market.

Staff Recommendation: DENY the request without prejudice.

3. BBR: Emergency Housing Assistance Program. The Governor proposes a reduction of \$401,000 GF to this program, which helps to fund local homeless shelters, providing a portion of the funding for approximately 19,000 shelter spaces annually.

Staff Comment: According to the HCD, the state currently provides about 10 percent of the overall funding for local homeless shelters. Although the amounts awarded to shelters vary, on average this proposal would result in a 1-percent reduction in total funding for each of 19,000 shelter spaces.

Staff Recommendation: APPROVE the reduction.

4. BBR: Office of Migrant Services (OMS). The Governor proposes an annualized reduction of \$687,000 to the OMS program, which provides safe, decent, and affordable seasonal rental housing and support services for migrant farmworker families during the peak harvest season. The 2008-09 Governor's Budget assumes only \$343,000 in savings in the Budget Year due to the lag time required to implement the reduction.

Staff Comment: The HCD originally estimated the state would need to shut down four to six of the 25 OMS Centers to achieve the budgeted savings; however, during the special session the HCD was able to eliminate state funding from one center (Firebaugh) while the locals kept the facility open utilizing reserve funds. This arrangement saved approximately \$202,000 GF, but still requires the department to find an additional \$141,000 in savings in the budget year. While the HCD hopes to find other centers with sufficient reserves to fund operations for the next year using less GF as was accomplished at Firebaugh, the additional reduction may require a 2-percent, across-the-board GF cut to all centers. The HCD does not currently anticipate the need to close any OMS centers over the next two growing seasons (through the end of FY 2008-09); however, the department cannot make an ironclad commitment on this account. Staff notes that the HCD is also working to get federal dollars to ease the demand on the state budget (see Item 5, below).

Staff Recommendation: HOLD OPEN.

5. FL-3: OMS Federal Funding for Rehabilitation Projects. The HCD requests \$1.8 million in federal fund authority in recognition of its intent to seek federal funding for projects at the various OMS centers.

Staff Comments: As discussed in Item 4 (above), the HCD operates 25 OMS centers (with approximately 1,800 units of housing) across the state and is responsible for their regular upkeep and maintenance as well as major repairs and rehabilitation. For going on 25 years, the HCD has regularly inspected the centers and carried out required repairs, rehabilitation, and reconstruction on a priority basis subject to fund availability.

While the HCD is nearing completion of a multi-year plan to reconstruct the oldest centers, the HCD indicates that OMS staff have identified rehabilitation projects and Americans with Disabilities Act (ADA) work, totaling \$2.7 million, that is currently needed. The United States Department of Agriculture's Rural Development Agency has made available rehabilitation and repair funds for the OMS centers through a competitive Notice of Funding Availability, and the HCD plans to submit an application by mid-May for the aforementioned \$2.7 million. The HCD anticipates the awards would be made in late-July or early-August and is requesting \$1.8 million in additional federal fund authority based on the assumption that it will successfully compete for two-thirds of the requested dollars.

Due to the contingent nature of the requested funding, the subcommittee may wish to direct staff, the LAO, and the Administration to develop provisional language that makes the requested authority contingent upon approval of the federal funding.

Staff Recommendation: APPROVE the request with provisional language to be developed by staff, LAO, and the Administration.

VOTE:

6. BBR: Housing Element. The Governor proposes a reduction of \$163,000 GF and 0.9 positions to this program, which provides for review and approval of local housing plans that are required as part of local general plans. In addition, some state housing bond programs require housing element compliance, or provide preference for compliance.

Staff Comment: For several decades, state law has required local governments to adopt a general plan that contains at least seven elements, including a housing element. By requiring local governments to adopt land-use plans and regulatory schemes that take into account the local housing need, the housing element is the state's primary market-based strategy to increase housing supply and choice. Although the HCD is required to review housing elements (which must be updated every five years) for compliance, the department does not possess a regulatory "hammer" to force compliance or punish non-compliance. As a result, the statewide compliance rate was well below 50 percent as recently as the early 1990s. However, compliance rates have improved due to increased technical assistance and resources provided by the HCD; a growing recognition by local governments of the importance of housing and an increased commitment to addressing the need; litigation against local governments by advocates for low-income families and individuals to compel compliance; and the use of state housing and bond funds to reward compliance (e.g., the BEGIN program; the Jobs and Housing Improvement Program and the Workforce Housing Program which provided local governments with discretionary grant funds for adopting a compliant housing element and approving housing). Currently, approximately 19 percent (or 102) of the 535 jurisdictions required to adopt a housing element are out of compliance.

As noted above, certain Prop 1C programs provide a monetary incentive for local governments to comply with housing element law, thereby increasing the demand for the HCD's services. However, in addition to this, a large number of jurisdictions have received extensions for updating their housing elements over the last few years and the HCD anticipates those delayed submissions will be received soon. As result of this spike in workload, the proposed reduction could result in the department missing statutory review deadlines.

Staff notes that the State Housing Element Law BCP below (Item 7) would add 2.0 Prop 1C-funded limited-term positions, to this program. Should the subcommittee choose to approve both of these proposals, the HCD would net 1.0 new position for the State Housing Element Law Program, and would effectively shift the cost of 1.0 position from the General Fund to Prop 1C funds. While this option would provide GF relief in the short-term, the Legislature would still need to address the ongoing resource needs of the program in the future.

Staff additionally notes that the Legislature approved a one-time, current-year reduction of \$100,000 GF to this program in the special session.

Staff Recommendation: APPROVE the reduction (in anticipation of accepting the staff recommendation to approve the State Housing Element Law BCP—Item 7).

VOTE:

7. BCP-1: State Housing Element Law—Prop 1C Workload. The HCD requests 2.0 two-year limited-term positions and \$222,000 (bond funds) to address increased workload in the Housing Element Law program resulting from the passage of Prop 1C.

Staff Comment: As mentioned above, some Prop 1C programs/grants, most notably the Infill Incentive Program (with \$850 million in available funds), either require or prioritize projects that have an approved housing element. The HCD believes that, with the large amount of funds to be disbursed under Prop 1C, and based on the department's experience with the previous housing bond (Prop 46), it is reasonable to expect that many entities currently not in compliance with housing element law will be submitting housing elements for review. Based on an analysis of the Prop 46 historical workload, the HCD conservatively estimates that the Prop 1C housing element workload will require 2.0 additional positions.

Staff Recommendation: APPROVE the request.

VOTE:

8. BCP-16: Updating of Housing Elements for Flood Hazards—AB 162 Implementation. The HCD requests 2.0 two-year limited-term positions and \$226,000 (GF) to address the increased number and complexities of housing element reviews resulting from Chapter 369, Statutes of 2007 (AB 162).

Staff Comment: AB 162 requires the HCD, when acting as a Council of Governments, to consider flood hazards when evaluating available land suitable for urban development, and changes requirements in relation to housing elements and safety elements. This legislation also requires more updates to existing safety and housing elements, which, according to the HCD will create more review work for the department. Staff notes that the bill analysis for AB 162 identified no fiscal effect on the HCD.

As discussed in the corresponding BBR and BCP above (Items 6 & 7), the Governor proposes to reduce 1.0 position in the State Housing Element Program, but add 2.0 positions for Proposition 1C purposes. Together with this BCP, if all three requests are approved, the HCD would gain a net of 3.0 positions in the Housing Element Program.

As noted above in Item 2, the subcommittee is generally denying any augmentation to implement new or recent legislation unless the funding would protect life and safety or produce offsetting revenues or savings. Although the benefits of AB 162 may not be felt immediately, the subcommittee may wish to consider whether AB 162 would provide sufficient protection to life and property (in the case of a flood), to justify the requested GF resources. Staff notes that if housing is not sited in inappropriate locations, such as areas with flood hazards, the costs to address various health and safety problems are avoided. This could result in lower costs to the occupants/owners of housing since they

would not be burdened with additional flood insurance costs. Should the subcommittee decide that these benefits are not sufficiently immediate to warrant the expenditure of scarce GF in the budget year, it should deny this request without prejudice.

Staff Recommendation: DENY the request without prejudice.

9. Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C). Prop 1C provided for a general obligation bond issuance not to exceed \$2.85 billion. The Governor proposes to award \$771.0 million in Prop 1C revenues in 2008-09, on top of the \$973.0 million estimated to be expended in the current fiscal year and \$162.0 million awarded in FY 2006-07. Some Prop 1C programs are already continuously appropriated and other programs require a Budget Act appropriation to authorize expenditure. The Administration has submitted statutory language to implement one remaining Prop 1C program that was not activated in the current fiscal year (see Item 10, below). The chart below outlines proposed Prop 1C expenditures by category and indicates whether each program is administered by the HCD, or by the California Housing Finance Authority (CalHFA). Dollars are in thousands and 2007-08 and 2008-09 allocations exclude administrative costs.

Proposition 1C Category	2007-08 Allocations	2008-09 Allocations	Total Prop 1C	Approp Type	Budget
<u>Homeownership Programs</u>					
CalHome	\$50,000	\$50,000	\$290,000	Continuous	HCD
CA Homeownership Program (BEGIN)	40,000	40,000	125,000	Budget Act	HCD
Self-Help Housing Program	3,000	3,000	10,000	Continuous	HCD
CA Homebuyers Down-payment Assistance Program	100,000	[30,000]	100,000	Continuous	CalHFA
Residential Development Loan Program	100,000	[30,000]	100,000	Continuous	CalHFA
Affordable Housing Innovation Fund	0	95,000	100,000	Budget Act	HCD
<u>Multifamily Rental Housing Program</u>					
General	140,000	101,000	345,000	Continuous	HCD
Supportive Housing	80,000	78,000	195,000	Continuous	HCD
Homeless Youths	15,000	15,000	50,000	Continuous	HCD
<u>Other Programs</u>					
Serna Farmworker Loans/Grants	40,000	40,000	135,000	Continuous	HCD
Emergency Housing Assistance	10,000	24,000	50,000	Continuous	HCD
Infill Incentive Grants	300,000	200,000	850,000	Budget Act	HCD
Transit Oriented Development	95,000	95,000	300,000	Budget Act	HCD
Housing Urban-Suburban and Rural Parks	0	30,000	200,000	Budget Act	HCD
TOTAL	\$973,000	\$771,000	\$2,850,000		

Staff Comment: Consistent with last year's Prop 1C discussion, the subcommittee may wish the Administration and the LAO to comment on the following in light of the experiences of the intervening year:

- What is the appropriate level of funding for support costs – a level that minimizes administrative costs but allows for appropriate oversight? The HCD has previously suggested that total program overhead can be kept below 5 percent, which is similar to the level used for the Proposition 46 programs. Has the HCD been able to keep administrative costs below this threshold?
- For each bond program, what is the appropriate number of cycles, the schedule for the cycles, and the approximate amount of funding for each cycle? The amount of funding eventually provided for FY 2007-08 was different in several instances than was originally proposed in the Governor's Budget and the dollar totals for applications recently received has far exceeded the funds allocated in several instances. For example, the Infill Incentive Program (Infill) was budgeted at \$300 million, released a Notice of Fund Availability (NOFA) for \$240 million, and received approximately \$1 billion in applications. Similarly, the Transit-Oriented Development Program was budgeted at and released a NOFA for \$95 million and received \$544 in applications. This suggests that there may be sufficient demand to release more of the bond funds earlier. Has the Department made any changes to its Prop 1C proposals relative to what is included in the Governor's Budget? What are the pros and cons associated with speeding up the delivery of the Infill funds, for example?

Staff Recommendation: Keep this issue open and direct staff to continue discussions with the department on the possibility of accelerating certain bond award schedules.

10. BCP-11: Housing Urban-Suburban-and-Rural Parks Program with TBL. The Governor proposes: (1) trailer bill language (TBL) to implement the Housing Urban-Suburban-and-Rural Parks (Housing-Related Parks) Program created under Prop 1C; (2) 2.0 positions and \$583,000 (bond funds), including \$350,000 for an interagency agreement with the Department of Parks and Recreation (DPR) to fund state operations of the Housing-Related Parks Program; and (3) Budget Act authority to award \$30 million in bond funds to qualifying projects for housing-related parks.

Staff Comments: Prop 1C provided \$200 million, available upon appropriation, for "housing-related parks grants in urban, suburban, and rural areas, subject to the conditions and criteria that the Legislature may provide in statute." The Governor proposed TBL to implement the Housing-Related Parks Program in FY 2007-08, but the Legislature opted to defer a final decision on the shape and form of the program until FY 2008-09. As a result the Administration has again proposed TBL to implement the program. The Administration TBL would require the HCD, "in conjunction" with the DPR, to provide grants to local governments based on the following criteria:

1. The jurisdiction has adopted a compliant housing element.
2. The jurisdiction is "critically underserved by park and recreation facilities" and the park or recreation facility for which the funds are to be used meet minimum park standards as determined by the DPR (in both instances).

3. Grant amounts would be determined based on new housing starts as a per-bedroom incentive. (Staff notes that the Administration proposal assumes \$500 in grant funding per unit.)
4. Additional bonus funds could be awarded for (1) high park need as determined by the DPR; (2) meeting or exceeding housing production thresholds as determined by the HCD and the Department of Finance; and/or (3) housing starts that are affordable to lower income households.

The subcommittee may wish the HCD to discuss in greater detail the way in which this program would work.

Staff Recommendation: HOLD OPEN.

11. BCP-18: Prop 1C Affordable Housing Innovation Programs—SB 586 Implementation. The HCD requests 5.0 two-year limited-term positions and \$559,000 (special funds) to implement new Prop 1C Affordable Housing Innovation Fund Programs, as authorized by Chapter 652, Statutes of 2007 (SB 586).

Staff Comments: Prop 1C provided \$100 million to the Affordable Housing Innovation Fund for a variety of purposes. Subsequent legislation, SB 586, specified the funds to be used in the following manner:

- Affordable Housing Revolving Development and Acquisition Program – Loan Fund (\$25 million)
 - Provide loans for the purchase of real property for the development or preservation of affordable housing.
- Affordable Housing Revolving Development and Acquisition Program – Practitioner Fund (\$25 million)
 - Primarily to provide funds to nonprofit entities for projects developing or preserving housing affordable to low and moderate-income households.
- Local Housing Trust Fund Matching Grant Program (\$35 million)
 - Continues the program created under Prop 46 to provide matching grants for local programs. Fifty percent of the funds must be used for newly established trusts, and some funds must go towards rural trusts.
- Innovative Homeownership Program (\$10 million)
 - This program allows HCD to draft guidelines for innovative projects that would reduce the cost of affordable housing.
- Construction Liability Insurance Reform Pilot Program (\$5 million)
 - Funds a predevelopment program for best practices for state-sponsored housing programs.

SB 586 additionally requires the HCD to develop regulations regarding priorities and funding structure for the programs created under the Affordable Housing Innovation Fund Program.

Staff notes that the requested resources are consistent with the Senate floor analysis of SB 586.

Staff Recommendation: APPROVE the request.

VOTE:

12. BCP-4: Budget Office Workload. The HCD requests 1.0 position and \$106,000 (various funds) to properly administer and manage the department's expenditure authority, fund availability, and bond accountability requirements.

Staff Comment: The HCD currently has 3.0 "budget" staff to manage a budget in excess \$500 million that spans 34 funding sources. The passage of Proposition 46 in 2002 and Proposition 1C in 2006 significantly diversified the housing portfolio, which correspondingly increased the volume and complexity of overseeing the HCD budget. The table below provides a comparison of the HCD (pre-Prop 1C, which added nine additional fund sources) to several other departments based on some of the characteristics that drive the need for budget staff:

Department	PYs	Total Funds (\$s approximate and rounded in 000s)	# of Funds	# of Programs	"Budget" Staff
HCD	526.9	\$664	25	5	3
Energy Comm	500.3	\$510	14	5	3
Toxics	1,003.7	\$181	7	5	4
Alcohol & Drug	323.2	\$663	12	2	5
Conservation	628.6	\$1,049	22	6	5
OES	520.6	\$1,295	12	9	18

(All data based on the 2007-08 Governor's Budget)

As the table depicts, the number of budget staff allocated to departments does not follow a strict formula; however, among the sample presented, the HCD ranks mid-to-high across each of the categories that primarily influence the number of budget staff required while ranking at the bottom in terms of budget positions authorized. Staff notes that, particularly with regard to the number of funds managed, the HCD budget generates significant challenges because 17 of the funds have both state operations and local assistance appropriations (contributing to HCD's 95 total and 28 Budget Act appropriations). Additionally, some HCD programs have long-term requirements, like loan monitoring of up to 55 years.

According to the HCD, the unique and growing challenges of its budget combined with a current statewide trend that finds many experienced staff leaving the workforce has substantially hampered the ability of the Budget Office to serve its internal and external customers quickly and efficiently. The department indicates the Budget Office has lost approximately half of its budget experience over the past several years and indicates that the complexity of the HCD budget and the long hours demanded by a small budget office have created recruitment and retention problems.

Based on the workload analysis provided, the HCD justifies at least 2.0 additional budget positions, but, given the current fiscal crisis, respectfully requests only 1.0 position with the intention, if the request is approved, of returning in the future if the need warrants. Staff notes that the requested position appears well justified on a workload basis, but may not meet the subcommittee's fiscal-crisis criteria for budget augmentations—that the request addresses life and safety or generates off-setting revenues or savings. Unless the HCD can make a business case for the requested positions, the subcommittee may wish to deny the proposal.

Staff Recommendation: DENY the request without prejudice toward the need, and offer reconsideration under improved fiscal conditions in a future budget year.

VOTE:

13. BCP-6: Preservation of the HCD's Older Affordable Housing Portfolio—SB 707 Workload. The HCD requests 3.0 two-year limited-term positions and \$351,000 (various special funds) to perform work authorized by Chapter 658, Statutes of 2007 (SB 707) and certain changes in regulation, associated with extension of loan terms for affordable housing loans.

Staff Comment: SB 707 provided statutory authority for the HCD to extend and modernize the loans in its oldest portfolio through conversion to the department's omnibus Multifamily Housing Program (MHP) structure. The old loans on 140 projects, representing 4,000 units of affordable housing, are coming to the end of their terms and repayment of the loans would, in a majority of cases, require the sale of the property. According to the HCD, this would likely result in a net loss of affordable rental housing to the state because the loan repayment dollars would be insufficient to purchase/build an equivalent number of affordable units at today's prices. Therefore, assuming the Legislature's policy goal is to maintain current levels of affordable housing, the conversion and preservation of affordable housing under SB 707 and pursuant to various regulatory changes, the 3.0 limited-term positions requested by the HCD appears to provide the least-cost method for achieving this goal and likely avoids other costs to the state that would be incurred if current residents lost their affordable housing.

Staff notes that the conversion/extension process created under SB 707 is entirely voluntary to the project owner and extends the period of affordability by 55 years (from the date of the conversion under a new loan term). The HCD indicates that the initial costs of this proposal would be funded from existing special fund balances until new interest revenues (on the converted loans) begin to flow.

Staff Recommendation: APPROVE the request.

VOTE:

14. FL-1: Local Agency Code Enforcement—Transfer of Local Agency Responsibility to the HCD. The HCD requests 5.0 positions and \$521,000 (special fund) to address the transfer from local agencies of code enforcement responsibilities for mobilehomes and special occupancy parks back to the state.

Staff Comments: Under existing law, the HCD is required to enforce the Mobilehome Park and Special Park and Special Occupancy Park Acts if a local government opts to cancel its assumption of these responsibilities. According to the HCD, this request is necessary because San Bernardino County may return enforcement responsibility of 223 mobilehome and special occupancy parks (including 20,500 spaces) to the state on or before July 1, 2008.

The HCD currently provides enforcement for 149,004 spaces with 40.0 District Representative Is (DRIs) and 8.0 District Representative IIs (DRIIIs) (a 5:1 ratio of DRIs to DRIIs, and a DRI to park space ratio of 1:3,725). The HCD indicates that this request includes 3.0 DRIs and 1.0 DRII (rather than the 5.0 DRIs that the current ratio would indicate) because the current permit-to-operate fee structure will not support two additional DRIs, and fee-for-service fees are based on 2001-02 salaries. Additionally, the HCD is hopeful that the park jurisdiction will be returned to the state in good condition, with proper recent monitoring and inspections completed and up-to-date.

Staff notes that the Administration has proposed provisional language to make the requested funding contingent upon the HCD's assumption of the enforcement responsibilities should San Bernardino County opt to cancel its assumption. However, the subcommittee may wish to simply hold the item open to wait and see whether a decision is made in the next month given that this request may be unnecessary.

Staff Recommendation: HOLD OPEN to allow the maximum time for the Legislature to learn whether San Bernardino County will indeed return its enforcement responsibilities to the state.

2320 Department of Real Estate

A primary objective of the Department of Real Estate (DRE) is to protect the public in real estate transactions and provide related services to the real estate industry.

The Governor proposes \$43.3 million (no General Fund) in total expenditures and 347 positions for the Department – an increase of \$8.8 million and 38 positions.

DISCUSSION ITEMS:

1. Informational Item: Workload Analysis Report and Future Trends in DRE Workload. Provisional language included in the Budget Act of 2006 required the DRE to provide the Legislature, by January 10, 2008, with a report containing actual workload data from the 2005-06 and 2006-07 fiscal years, including the total number of licensees; the number of exams scheduled; the number of licenses issued, the number of enforcement cases assigned; the number of audits performed; the number of Subdivision Program filings; and the number of legal actions filed.

Staff Comment: The provisional language was introduced to the Budget Bill in order to track and validate augmentations approved in FY 2006-07 in the Enforcement and Subdivisions Programs (totaling 37.0 positions and approximately \$3.0 million). Due to late receipt of the report (staff received an unofficial release on April 7, 2008) staff has had insufficient time to review the report in detail; however, the subcommittee may wish the department to summarize the key points of the report and address the following questions:

- The licensee population and salesperson examination projections the DRE made during the FY 2006-07 budget process for FY 2007-08 have proven to be high—by about 10 percent and 20 percent, respectively—relative to updated estimates for the current fiscal year. In hindsight, what played out differently than the DRE expected in the real estate market over the last couple of years? How does the department expect these trends to track over the next couple of years?
- Although not included in the reporting requirement, the positions approved in the 2006-07 budget process were intended, among other things, to help expedite investigations and audits. To what extent has this occurred? Would the department object to providing enforcement data in future reports?

Staff Recommendation: Direct staff, LAO, and the Administration to AMEND Provision 2 of Item 2310-001-0317 to include reporting on various DRE enforcement metrics.

VOTE:

2. BCP-1: Fiscal & Business Services Workload. The DRE requests 3.0 positions and \$139,000 (special fund) to process incoming and outgoing mail and provide support services to the Sacramento Office. This augmentation is being sought to offset the workload support demands of a high licensee population.

Staff Comment: As with many state agencies, the DRE has moved toward greater reliance on electronic processes over the last several years to generate efficiencies and improve service to the public. In FY 2006-07 alone, the Legislature approved the DRE for an Information Technology (IT) Replacement Project, an Interactive Voice Response IT Project, and an Electronic Examinations IT Project. However, even while the DRE has moved increasingly toward the “e-licensing” of its brokers and real estate agents, and in so doing reduced incoming mail from approximately 351,000 pieces in FY 2004-05 to a projected 252,000 in FY 2007-08, the department’s duties continue to require substantial physical handling of mail. According to the department, while the licensee population has increased dramatically in recent years, no additional staff has been provided for mail processing in over a decade. As a result, temporary help, overtime, and redirections have been used to meet the need.

Staff notes that, in reviewing this proposal, the Legislative Analyst’s Office (LAO) concluded that the department has provided sufficient workload justification for only 2.0 of the 3.0 requested positions. Additionally, the LAO concluded that one of those positions can and should be funded from the DRE’s temporary help blanket, since the department has been using temporary help to partially address the subject workload. As such, the LAO recommends that the Legislature (1) reduce the request by \$92,000 and 1.0 position (Office Assistant); thereby, leaving the DRE with about \$47,000 and 2.0 new positions (Program Technicians), and (2) redirect approximately \$47,000 from DRE’s temporary help blanket to cover the balance of funds needed to support the positions. The DRE concurs with the LAO position, and is in support of using temporary help funds to support 1.0 of the 2.0 positions recommended for approval.

Staff Recommendation: APPROVE the LAO recommendation.

VOTE:

3. Informational Item: Real Estate Fraud Prosecution Trust Fund Program—Inadequate Reporting by Counties. According to the LAO’s *Analysis of the 2008-09 Budget Bill*, counties that participate in the Real Estate Fraud Prosecution Trust Fund Program (Program) are not providing consistent data on their activities under the program or may not be reporting at all.

Staff Comment: The Program was created in 1995 to allow counties to establish a fee of up to \$2 for certain real estate documents filed with the county to support local law enforcement activities to fight real estate fraud. Under existing law, recipients of Program monies are required to provide an annual report on their activities and outcomes to the county board of supervisors, who must then submit the annual reports to the LAO. The LAO is required to annually compile the information in the reports and report to the Legislature. Although the legislation took effect at the beginning of 2006, the LAO indicates that it did not receive the first reports from the counties until October 2007, and then from only two—Sacramento and Santa Clara Counties. The LAO believes that, based on anecdotal evidence, as many as 22 counties may be participating in the program. This suggests that many counties may not be aware of their obligation to report on the program. Additionally, the LAO notes that inconsistencies in the presentation of the data submitted may make the reports less valuable to the Legislature in setting future policy.

The subcommittee may wish to ask the DRE how to best address these issues.

8940 Military Department

The California Military Department (CMD) is responsible for the command, leadership, and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard (CNG) is to provide military service supporting this state and the nation. The three missions of the CNG are to: (1) supply mission ready forces to the federal government as directed by the President; (2) provide emergency public safety support to civil authorities as directed by the Governor; and (3) support local communities as directed by proper authorities. The CMD is organized in accordance with federal Departments of the Army and Air Force staffing patterns. In addition to the funding that flows through the State Treasury, the CMD also receives Federal Funding directly from the Department of Defense.

The Governor's Budget begins by funding 888.5 positions (a net increase of 77.0 positions over adjusted current year totals) and budget expenditures of \$146.5 million (including \$47.5 million GF) for the department, but then includes 10-percent, across-the-board, GF reductions (BBRs) of approximately \$4.6 million. The individual BBRs are as follows:

Program	General Fund*	Personnel Years (PYs)
Army National Guard	-\$1,621	-2.9
Air National Guard	-\$400	--
Office of the Adjutant General—Admin.	-\$1,382	-8.6
Military Support to Civil Authority	-\$200	-1.9
Military Retirement	-\$200	--
California Cadet Corps	-\$119	--
State Military Reserve	-\$100	--
CA National Guard Youth Programs	-\$700	-5.7
TOTALS	-\$4,622	-19.1

(*dollars in thousands)

As illustrated in the table below, the net effect of the Governor's proposals would be a 7.0 percent increase in total funds for the CMD (relative to adjusted Fiscal Year 2007-08 totals) primarily as a result of a proposed assessment on multiperil insurance policies to fund the Governor's Wildland Firefighting Initiative, including new firefighting capabilities in the CMD budget (see Discussion Item 10 below). Staff notes that, given multiple GF augmentations proposed in the CMD, the Governor's 10-percent, across-the-board reductions would result in a less than 2-percent reduction in the CMD GF budget (relative to adjusted Fiscal Year 2007-08 totals).

	Total Funds*	General Fund*
Adjusted 2007-08 Budget	\$131,650	(\$43,802)
2008-09 Base Budget	\$146,534	(\$47,549)
Proposed Budget-Balancing Reductions	-\$5,622	(-\$4,622)
GOVERNOR'S REVISED 2008-09 TOTALS	\$140,912	(\$42,927)
Change—Year Over Year	+7.0%	-1.9%

(*dollars in thousands)

VOTE-ONLY ITEMS:

1. BBR: Army National Guard. The Governor proposes a reduction of \$1.5 million GF and 3.0 positions to this program, whose objective is to optimize the readiness of the CNG's community-based land force to respond to state emergencies and national security missions.

Staff Comment: According to the CMD, this reduction would delay major and minor repairs. Staff notes that this program is predominantly supported by federal funds (approximately \$48.7 million in FY 2008-09), and this reduction would result in the loss of \$100,000 in federal matching funds. Taken together, the proposed GF and federal fund reductions represent approximately 2.5 percent of the overall program budget; however, the CMD indicates the way in which the reduction would be taken would result in a 14.3-percent reduction to the maintenance, repair, and modernization budget.

2. BBR: Air National Guard. The Governor proposes a reduction of \$400,000 GF to this program, whose objective is to optimize the readiness of the CNG's community-based air force to respond to state emergencies and national security missions.

Staff Comment: According to the CMD, this reduction would result in a more rapid deterioration of facilities and increase safety and environmental risks. Staff notes that this program is predominantly supported by federal funds (approximately \$15.6 million in FY 2008-09), and this reduction would result in the loss of \$400,000 in federal matching funds. Taken together, the proposed GF and federal fund reductions represent approximately 4.0 percent of the overall program budget. Staff additionally notes that the Legislature approved a Current Year (CY) reduction of \$100,000 GF to this program in special session.

3. BBR: Office of the Adjutant General—Administration. The Governor proposes a reduction of \$1.4 million GF and 9.0 positions to this program, which provides strategic methodology and organization to fulfill CNG missions and governs the joint activities and

performance of the CMD in such areas as personnel and fiscal resource management, judicial affairs, internal controls, facility management, and information technology.

Staff Comment: According to the CMD, the department would eliminate 8.6 PYs including 3.0 positions in the Military Funeral Honors Program, reducing program capability by 60 to 75 funerals per month (or 720 to 900 per year). As previously noted in special session, when the Legislature approved a \$700,000 reduction to this program, in 2007-08, the Legislature approved \$1.8 million GF and 23.0 positions to meet the need for approximately 1,000 military funeral honors per month. Although acknowledging this proposal would necessarily reduce the day-to-day capability of the program, the department still anticipates being able to meet peak workload, and its 1,000 funeral goal, using staff overtime.

4. BBR: Military Support to Civil Authority. The Governor proposes a reduction of \$200,000 GF and 2.0 positions to this program, which plans and prepares to support civil authority when called to state service by the Governor due to domestic emergency or natural disaster and to provide state, county, city, and other public agencies with the coordination necessary to insure a timely, organized response.

Staff Comment: According to the CMD, this proposal would reduce operational and emergency response planning efforts, primarily for future missions (as opposed to current missions such as search and rescue, wildfire fighting, and flood and earthquake response). Staff notes that the Legislature approved a CY-reduction of \$100,000 GF to this program in the special session.

5. BBR: Military Retirement. The Governor proposes a reduction of \$200,000 GF to this program, which provides retirement benefits to persons who entered state active duty prior to October 1, 1961, and have served 20 or more years, at least 10 of which have been on state active duty, or have been separated for physical disability.

Staff Comment: According to the CMD, this proposal would result in minimal impact because the program exclusively serves individuals who served prior to October 1, 1961. Therefore, the number is not growing and is in fact shrinking as retirees pass away (which is how the savings will be generated). Staff notes that the Legislature approved a CY-reduction of \$100,000 GF to this program in the special session.

6. BBR: State Military Reserve (SMR). The Governor proposes a reduction of \$100,000 GF to this program, a volunteer organization that supports the CMD's CNG organizations during training, preparation for mobilization, demobilization, and military support to civil authorities during periods of state emergencies or disasters.

Staff Comment: According to the CMD, this proposal would reduce the department's ability to train SMR forces to respond to state emergencies.

7. BCP-5: Custodian for Roseville Armory. The CMD requests 1.0 position and \$66,000 GF to hire a custodian for the newly expanded Roseville Armory.

Staff Comment: Custodial services are necessary to maintain the armory, protect the health and safety of those who use it, and avoid costs that would stem from untimely deterioration of the facility if regular cleaning and basic maintenance is not conducted. Staff notes that the cost for the requested position was noted in the capital outlay request for the expansion and remodel of the Roseville Armory (FY 2005-06).

8. BCP-6: State Active Duty (SAD) Employee Compensation Increase. The CMD requests a baseline augmentation of \$1.3 million (\$604,000 GF and \$722,000 federal funds) to cover SAD employee compensation increases set by Congress.

Staff Comment: Because the state and federal fiscal years are staggered, this request seeks funds to address two federal employee compensation increases that will affect CMD expenditures in FY 2008-09. The first federal increase came on January 1, 2008, and the second is anticipated to occur on January 1, 2009. Consistent with previous practice, this request is accompanied by proposed provisional language that would ensure that the augmented spending authority is provided contingent upon federal approval of the estimated compensation increase.

9. BCP-12: CNG Financial Assistance Fund Manager. The CMD requests 1.0 position and \$87,000 reimbursement authority to hire a manager to oversee the Iraq Afghanistan Development Impact Program (IADIP).

Staff Comment: The IADIP is a program supported entirely with private donations that supports families of deployed or formerly deployed National Guard members suffering from financial hardships. This position would oversee all aspects of the program.

10. BCP-13: Homeland Security Training and Exercise Program. The CMD requests continuation of \$7.5 million in reimbursement authority and 13.0 limited-term (LT) positions (10.0 re-establishments and 3.0 new) to execute a continuing interagency agreement with the Governor's Office of Homeland Security (OHS).

Staff Comments: For the past three years, the CMD has provided statewide oversight of homeland security terrorism training and exercise activities supported by federal funding under the Homeland Security Grant Program managed by the OHS. Although the CMD requests 3.0 additional LT positions in continuation of these efforts, the department indicates that the programming levels, through FY 2010-11, will remain the same (at \$7.5 million per year). Based on past experience, the CMD merely plans to utilize available funds to support a different mix of resources in support of the operation.

11. FL: Critical Infrastructure Protection (CIP) Teams. The CMD requests 14.0 limited-term positions and \$2.1 million in reimbursement authority to execute an interagency agreement with the OHS to establish two CIP Teams to assess designated critical infrastructure sites and develop recommendations to mitigate vulnerabilities (including assisting sites in the development of security plans).

Staff Comments: Similar to Vote-Only Item 10 (above), the reimbursements for the aforementioned activities would be funded by the Homeland Security Grant Program managed by the OHS.

STAFF RECOMMENDATION ON VOTE ONLY ITEMS: APPROVE AS BUDGETED.

VOTE on Vote-Only Items 1 through 11:

DISCUSSION ITEMS:

1. BCP-2: Medical Services Branch Staffing. The CMD requests 3.0 positions and \$228,000 GF to meet the increased need for services to wounded and deceased soldiers.

Staff Comments: The 3.0 positions requested would primarily address workload in the following two areas:

1. **Line of Duty (LOD) Reports**—An LOD report is related to the injury or death of a CNG soldier and contains the complete medical documentation and evidence required to support a claim related to a service-connected injury or illness. All medical payments and soldier Incapacitation Pay payments are contingent upon having an approved LOD. Typical processing time for a LOD report is 30-60 days and requires inputs and action at the unit, CMD, and National Guard Bureau. Timely processing insures that the soldier's medical bills are paid on time and avoids unnecessary problems with delinquent collection actions. Currently, the CMD has 269 open (not completed) LOD reports which affect CNG soldiers' receipt of medical benefits. From 2004-2007 over 1,117 CNG soldiers have been injured during pre-deployment training or during deployment and an average of 1,075 LODs were processed per year. Although the CMD indicates that current personnel allow the processing of only 66 percent of the required LODs, staff notes that the department has not provided sufficient data to support this contention or justify the need for the additional position requested for these activities.
2. **Casualty Assistance**—The CMD asserts that there is a shortage of staff to cover increasing casualty operations missions. From July 2004 through July 2007, the CMD had 158 CNG soldier casualties and completed 250 Casualty Notification Officer missions and 99 Casualty Assistance Officer missions. The CMD is required to have on call personnel 24 hours a day for its casualty operations mission. At present the CMD has 2.0 permanent and 1.0 temporary positions for this purpose. Casualty assistance is a full-time responsibility that can take several weeks of dedicated support and up to several months of follow up. Similar to above, the CMD has not provided sufficient data to support the contention that the department is short-staffed in this area.

All told, the above activities are currently supported by 4.0 permanent and 3.0 temporary positions. The CMD indicates that the 3.0 permanent positions requested would replace 3.0 temporary staff (1.0 state-supported and 2.0 federally supported) that will be released on or about September 30, 2007.

Staff Recommendation: DENY the request based on insufficient workload justification, but offer reconsideration should the department bring forward additional information in the future.

VOTE:

2. BCP-3: Joint Operations Center (JOC) Staffing. The CMD requests 14.0 positions and \$1.3 million GF for the JOC to provide immediate response to the Governor's Office, Office of Emergency Services (OES), and the public during disasters and special security events.

Staff Comments: The JOC serves California by providing command and control of CNG and State Military Reserve units assigned to emergency operations by the CMD. The JOC tracks the status of CNG units and equipment to ensure the CMD maintains appropriate capability to respond quickly and effectively to state emergency missions. JOC personnel work directly with the OES and the OHS on a daily basis to monitor potential threats from natural or man-caused disasters that may require deployment of military units to support civilian authorities.

The CMD currently operates the JOC by diverting federal funding from the Southwest Border Security mission (Operation Jump Start) to hire temporary soldiers and airmen in a federal status as staff. That funding is ending in July 2008. Prior to the start of Operation Jump Start, the CMD resourced the JOC by re-directing federal funds intended for positions that would perform maintenance on CNG vehicles and aircraft, which affected their readiness rates during missions and training. The resources requested in this proposal would enable the CMD to maintain the current level of 24/7 communications with state and local emergency response agencies and to respond within 12 hours to a request for emergency assistance (a 50-percent improvement in response time compared to historic levels when the JOC relied solely on the GF).

Staff notes that the current speed and quality of CMD emergency response is as high as it has ever been. Given that the current capability is partially supported by federal funding that is about to disappear, the Legislature is faced with a policy decision as to whether maintaining the current level of emergency response reflects the highest and best use of scarce GF. Since the CMD has previously found creative ways to improve JOC capability by redirecting federal funds, the subcommittee may wish to explore whether this is again an alternative given the current fiscal crisis. For example, Discussion Item 3 (below) contains new federal grant dollars for emergency planning activities that may share a nexus with the activities performed by JOC staff (when they are not actively responding to an emergency). Although the CMD recognizes emergency planning and response as two distinct and separate activities, and JOC personnel are ostensibly "response" staff, the subcommittee may wish the department to clarify whether JOC staff ever engage in planning that might be federal-eligible.

Given the scarcity of GF, the subcommittee may also wish to have the CMD provide several alternative scenarios involving reduced staffing levels (and, therefore, savings to the GF). For example, staff notes that the BCP includes an alternative in which \$376,000 GF could be used to support 4.0 positions that would still allow 24/7 JOC staffing, but at a level of 1.0 position per shift instead of 3.0.

Staff Recommendation: HOLD OPEN.

3. FL: CMD Homeland Security Staffing. The CMD requests 6.0 limited-term positions and \$800,000 in reimbursement authority to provide planning, training, and all-hazard emergency planning in support of the Governor's Office, Office of Emergency Services (OES), and OHS.

Staff Comments: This request would be supported by federal grant dollars awarded for the purpose of planning, training, and intelligence analysis associated with anti-terrorism and counter-terrorism efforts. The CMD indicates these resources would enable the department to continue to address concerns previously raised by the Bureau of State Audits about the CMD's lack of an adequate strategic planning process. According to the CMD, without the requested resources, the department "will not have the necessary staff to conduct the preparation, planning, training, exercises, and coordination in support of the OHS and other [state and federal agencies who respond in the case of an emergency]."

As noted above (in Discussion Item 2), it is not entirely clear whether, or if, there is overlap between the "all-hazard" planning activities supported by these federal funds and the planning the state would conduct "on-the-natural." Given the current fiscal crisis, the subcommittee may wish to verify with the CMD that there are not any allowable uses of these federal funds that would meet state objectives currently supported by GF. For example, staff has raised the question (above) as to whether there are activities carried out by JOC staff that would qualify for federal support.

Staff Recommendation: APPROVE the request.

VOTE:

4. BCP-4: Computer Lifecycle Replacements. The CMD requests \$273,000 GF in 2008-09 (and \$538,000 ongoing) to fund computer lifecycle replacements (at a rate of 25 percent each year—or complete refresh every 4 years).

Staff Comments: The CMD is authorized 780.0 state personnel assigned to 51 different Sections. In the past, each Section has funded IT equipment using funds redirected out of its internal base program. This has led to a significant department-wide disparity in capability and configuration. The CMD indicates that over the last three years only 20 Sections purchased IT equipment with state funds. Most Sections have purchased IT equipment using redirected discretionary federal funds.

According to the CMD, a baseline funding allotment for IT would allow the Directorate of Information Management to proactively manage the lifecycle of user level IT equipment. The result would be 1) compatibility with and networkiness on the Army network which is used throughout the CMD for day-to-day operations; 2) volume discounts; 3) configuration management limiting the number of different makes and models of equipment; 4) reduction in time and labor required to review and approve individual purchase requests and inventory management; and 5) replacement of equipment before Sections experience unacceptable rates of equipment failures.

Staff Recommendation: DENY the request without prejudice toward the potential need, and offer the CMD reconsideration under improved fiscal conditions in a future year.

VOTE:

5. BCP-8: California Cadet Corps (CaCC) Staff and Operating Funds. The CMD requests 1.0 position and \$185,000 GF to purchase new cadet uniforms and better coordinate administrative support activities and logistics for the CaCC Program.

Staff Comments: The CaCC is a school-based, applied leadership program conducted within a military framework at high schools and middle schools statewide. Currently, the program is provided at 89 schools and serves approximately 10,000 students. The development and maintenance of the individual units of the CaCC is a shared responsibility of the local school authorities and the CMD.

According to the CMD, permanent funding cuts and loss of positions five years ago has resulted in the neglect of cadet uniforms over the past several years to the point that existing uniforms are sub-standard and do not adequately reflect the pride and esprit de corps of the students wearing the uniform. The current CaCC baseline budget of \$450,000 provides approximately \$45.00 in funding per cadet, per year. The cost of one class B uniform alone is \$52.00 (which does not include the costs of shoes). In addition, the current CaCC budget does not allow for the purchase and distribution of the cadet physical fitness uniform (\$32.00) or the cadet utility uniform (\$69.00). This request would provide approximately \$110,000 for new uniforms and fund 1.0 new position to conduct administrative activities and provide logistical support for the program.

Staff notes that this proposal does not meet the subcommittee's fiscal crisis-criteria of addressing life and safety concerns or generating offsetting revenues or savings. Additionally, the requested position does not appear well justified. Insofar as the alternative was not explored in the BCP, the subcommittee may wish to encourage the CMD to consider reducing the number of students served by the program in order to more adequately meet the uniform needs of the participants within existing resources.

Staff additionally notes that this item is directly related to Item 6 (below) in which the Governor has proposed a 10-percent reduction to the CaCC Program (an \$119,000 GF reduction). Staff notes that if both items were approved, the result would still be a net increase of \$66,000 GF to the program.

Staff Recommendation: DENY the request.

VOTE:

6. BBR: California Cadet Corps (CaCC) Program. The Governor proposes a reduction of \$119,000 GF to the CaCC Program.

Staff Comment: As noted in Item 5 (above), the Governor's Budget first builds up the CaCC Program budget and then proposes to cut most, but not all, of the increase.

According to the CMD, the combined effect of these proposals (if both are approved) would be to limit the department's ability to provide new uniforms to participants in the CaCC Program. However, if the subcommittee opts to deny the augmentation in Item 5, it may wish the CMD to provide additional information on the potential impact before deciding to take the additional reduction reflected in this proposal.

Staff Recommendation: DENY the reduction.

7. BBR: California National Guard Youth Programs. The Governor proposes a reduction of \$1.2 million GF and 6.0 positions to this program, which operates five youth programs located throughout the state.

Staff Comment: According to the CMD, the proposed reduction would be taken in the following manner: (1) Headquarters of Youth Programs: 1 PY in management; (2) Oakland Military Institute: 1 PY dedicated to student supervision and training; (3) Grizzly Youth Academy: \$212,000 in state funding, \$318,000 in federal funding, and 1 PY, requiring it to serve 90-100 fewer students annually; (4) Challenge Support: \$56,000 and 1 PY and resulting in difficulty in reaching the graduation requirement of 200 students; and (5) Sunburst Youth Academy: \$100,000 in state funding, \$200,000 in federal funding, and 1 PY, requiring it to serve 80-90 fewer students annually.

Staff notes that the Legislature approved a CY-reduction of \$100,000 GF to this program in the special session.

Staff Recommendation: APPROVE the reduction.

VOTE:

8. FL: Sunburst Youth Academy Staff and Operating Funds. The CMD requests 3.0 positions and \$280,000 (federal funds) for the Youth ChalleNGe Program at Los Alamitos Joint Forces Training Base.

Staff Comment: The Youth ChalleNGe Program was established in 1993 and utilizes a 22-week residential phase and a one-year post-residential follow-up phase to intervene in the lives of at-risk high school drop-outs. The Sunburst Youth Academy is the CNG's second and newest Youth ChalleNGe Program, established in FY 2006-07 with \$3.9 million (\$900,000 GF) and 17.8 positions. The program is an accredited high school in which all Sunburst students attend daily and are engaged in a course of study aimed at earning a high school diploma and/or making progress toward passing the General Educational Development test and California High School Proficiency Exam.

As noted above in Discussion Item 7, the Governor's proposed reductions to CNG youth programs would result in \$100,000 less GF and \$200,000 less federal funding to Sunburst (as well as loss of 1.0 PY), requiring it to serve 80-90 fewer students annually. According to the CMD, the GF-match for the requested funding is already contained in the program's baseline budget, but was not previously matched because it was used for non-eligible program start-up costs (like equipment purchase). Staff notes that these funds would all but offset the BBR proposed above and would enable the Sunburst Academy to continue its ramp-up to its original target of serving 150 students at a time.

However, if the subcommittee chooses to maintain the level of service funded by the Governor's January 10 budget (i.e. 50 fewer students), then the proposed funding could be used to directly offset additional GF reductions to the program (and the current program service level would be "held harmless").

Staff Recommendation: APPROVE \$114,000 in additional federal funding authority and reduce the Sunburst Youth Academy budget by a corresponding \$114,000 GF.

VOTE:

9. BCP-14: CNG Education Benefit Program with TBL. The CMD proposes TBL to establish a new CNG Education Benefit Program, and requests 1.0 position and \$1.8 million GF (and \$3.6 million ongoing) to implement the program.

Staff Comment: In last year's budget, the CMD put forth a similar proposal for a new education benefit program to assist in the recruitment and retention of CNG members. However, the subcommittee denied the request without prejudice toward the need or potential benefit of the program because the policy of providing a non-needs-based education benefit represented a significant departure from existing policy and had not been vetted by the appropriate policy committee (Senate Education), and because the TBL was unworkable as proposed. The subcommittee encouraged the CMD to return at a future date with a more fully-vetted policy proposal.

This year, the CMD has proposed an education benefit program with the following characteristics:

- To qualify, a CNG member must: (1) be a California resident and an active member with two years of service in the CNG, State Military Reserve, or the Naval Militia; (2) have been accepted or registered at, or enrolled in, a qualifying institution (including a University of California—UC, California State University—CSU, or California Community College—CCC); and (3) agree to use the benefit to obtain a certificate, degree, or diploma that he or she does not already hold.
- The Adjutant General would review the program applications and certify the eligibility of the qualifying member to the Student Aid Commission (SAC).
- The SAC would be responsible for issuing the program awards which would not exceed the cost of attendance at the qualifying institution.
- The SAC would adopt rules and regulations, in consultation with the CMD, to administer the program, including provisions that establish the priorities for allocating available money to applicants.

The requested funding would cover the half-year costs in FY 2008-09, and the full-year costs thereafter, of program administration as well as fees, books, and supplies for approximately 1,000 awardees (including 500 at CCCs, 300 at CSUs, and 200 at UCs).

Staff notes that, concurrent with this budget request, the Administration has sponsored a policy bill, SB 1752 (Wyland), that was introduced containing the same language as the TBL proposed with the Governor's Budget. SB 1752 is currently in the Senate

Education Committee, and the CMD indicates that it is working closely with policy staff there to address the committee's concerns. Consistent with past practice in the Senate (and notwithstanding the Administration's identification of this request as a "baseline" budgeting issue), the subcommittee may wish to allow the proposed policy change to undergo a full hearing through the traditional bill process before providing funding to the program. Further, staff notes that given the subcommittee's current approach to new or recent legislation, this proposal would not clearly qualify for immediate funding anyway since there is not a direct nexus between the program and issues of life and health, nor are there immediate and offsetting revenues or savings.

Staff Recommendation: DENY the request.

VOTE:

10. BCP-17: Wildland Firefighting Initiative. The CMD requests 43.0 positions and \$9.2 million (Insurance Fund) to provide 24/7 Aviation Response Staffing and to purchase helicopters and aerial firefighting equipment in support of the Governor's Wildland Firefighting Initiative.

Staff Comment: The source of funding for this proposal is predicated on the Department of Insurance imposing on insurers an annual assessment of 1.25 percent of the premium for each commercial and residential multi-peril insurance policy. On a premium base of \$10.5 billion, the proposed assessment would generate approximately \$109 million in 2008-09 and an estimated \$125 million annually thereafter. Under the Governor's budget proposals: (1) \$77.6 million would be for CALFIRE staff, activities, and equipment; (2) \$9.2 million for this BCP; (3) \$1.9 million to OES to supplant baseline GF supporting the Mutual Aid Response program; and (4) \$10.2 million for additional fire engines and firefighters for the OES.

On January 29th, the Full Committee heard this issue and raised numerous concerns with the viability of the funding proposal. In addition, the Department of Insurance in a letter to the Chair of the Full Committee cited constitutional, implementation, and mandatory sharing of non-individual risks issues with the funding proposal.

Staff Recommendation: DENY the request without prejudice, due to the lack of a stable funding mechanism. The subcommittee should revisit this issue if the Military can provide an alternative, non-GF funding source.

11. COBCP-2: Kitchen Renovations Statewide. The CMD requests \$500,000 (including \$254,000 GF) to renovate and enlarge kitchen facilities within existing Life Support Areas at selected armories throughout California to correct fire/life safety, Public Health and other code deficiencies.

Staff Comments: The CMD indicates that kitchen facilities at many armories do not currently comply with applicable laws and regulations and cannot be used for cooking and food preparation. At a cost of \$250,000 each, this request would fund the renovation and expansion of two kitchen facilities.

Staff notes that, to the extent the identified kitchen facilities are not in use, the proposed renovations are not absolutely necessary at this time. While life and safety have been identified by the subcommittee as funding priorities during the present fiscal crisis, based on information provided by the CMD, the existing facilities do not appear to pose an immediate risk to anyone so long as current practice prevails and they remain unused. Should the subcommittee opt to deny this request and save \$250,000 GF, the CMD's long-term plan to renovate its armory kitchen facilities statewide (at the rate of approximately two kitchens per year) would be delayed. This would result in the identified kitchens continuing to be unsafe for use in the case of an emergency.

Staff Recommendation: DENY the request without prejudice and offer reconsideration under better fiscal conditions in a future year.

VOTE:

12. COBCP-1: Latrine Renovations Statewide. The CMD requests \$579,000 (including \$232,000 GF) to renovate and enlarge latrines within existing Life Support Areas at selected armories throughout California to redress Americans with Disabilities Act (ADA), and other code deficiencies.

Staff Comments: According to the CMD, most state armories are over 50 years old and do not meet ADA requirements. In addition to remedying ADA compliance issues, the CMD indicates this request would provide separate showers for females in some armories where they are not currently available.

Staff notes that, similar to the kitchen renovations above (Discussion Item 11), these renovations are part of a long-term plan to update latrine facilities statewide that have been funded in the past. However, given the current fiscal crisis, the subcommittee may wish to suspend/delay these renovations.

Staff Recommendation: DENY the request without prejudice and offer reconsideration under better fiscal conditions in a future year.

VOTE:

13. COBCP-6: Advance Plans and Studies. The CMD requests \$250,000 (including \$125,000 GF) to conduct studies and design charrettes for planned projects in order to improve the CMD's ability to scope and estimate funding.

Staff Comments: The CMD's current method for developing the scope of projects, which tends to underestimate the higher costs of construction in California, has not been accurate, and this has often resulted in project cost overruns. According to the CMD, this request would better enable the department to scope and fund projects appropriately.

Staff notes that, although the proposed studies might result in long-term savings to the state by accurately scoping and resourcing capital outlay projects (and avoiding costly delays), the current fiscal crisis makes it significantly less likely that any major projects

will be funded in the immediate future. Therefore, this request may not produce any immediate benefits.

Staff Recommendation: DENY the request without prejudice and offer reconsideration under better fiscal conditions in a future year.

VOTE:

Control Section 25.25—21st Century Project

This control section authorizes the State Controller to assess various special and nongovernmental cost funds and reimbursements to pay for the Controller's costs, not to exceed \$16,446,000, in implementing the 21st Century Project (a replacement of the existing automated human resource/payroll systems).

Staff Comment: Staff notes that the 21st Century Project budget request was held open when the State Controller's budget was heard on March 26, 2008, because the Administration anticipated submitting an updated request with the Governor's May Revise. Although the Administration has proposed no significant substantive changes to the language in this control section, the dollar limit contained therein will need to reflect the final amount approved for the project. Thus, in order to deal with this item expeditiously, the subcommittee may wish to close this item by acknowledging that it will conform to the final action taken on the Controller's budget.

Staff Recommendation: CLOSE the item consistent with the rationale stated above.